REPORT OF THE
FINANCIAL EXAMINATION OF

GATEWAY MUTUAL INSURANCE COMPANY

AS OF
DECEMBER 31, 2007

FILED
MAY 1 3 2009
DIRECTOR OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION

STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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February 24, 2009
Liberal, Missouri

Honorable John M. Huff, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Sir:

In accordance with your examination warrant, a full-scope examination has been made of the records, affairs and financial condition of

GATEWAY MUTUAL INSURANCE COMPANY

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 120 South Main Street, Liberal, Missouri 64762, telephone number (417) 843-6265. This examination began on October 20, 2008, and concluded on October 23, 2008, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 2002, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2003, through December 31, 2007, and was conducted by examiners from the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP).

This examination also included material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the DIFP and statutes of the State of Missouri prevailed.

Comments-Previous Examination Report

The comments, recommendations, and notes of the previous examination report dated December 31, 2002, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

Comments – Previous Examination Report

Comment: It was recommended that a location be made on the conflict of interest forms to allow for directors to disclose potential conflicts in the future.

Company Response: Revised conflict of interest forms are now utilized in the disclosure of potential conflicts by the directors.

Current Findings: The Company's conflict of interest forms and procedures appear adequate per review.

Corporate Records

Comment: It was recommended that the Company amend its Bylaws for the Company's name change and file the amendment with the DIFP.

Company Response: The Company amended its Bylaws to reflect the name change and filed the amendment with the DIFP.

Current Findings: The Bylaws were properly amended during the examination period and filed with the DIFP.

Reinsurance - Assumed

Comment: It was recommended that the Company amend the assumed pro rata reinsurance agreement with Barton Mutual Insurance Company (Barton Mutual) to reflect Barton Mutual's actual retention levels.

Company Response: The Company amended the agreement to reflect current retention levels.

Current Findings: The Company amended the agreement to state a minimum retention level required of Barton Mutual.

Comment: It was recommended that the Company amend the ceded obligatory pro rata reinsurance agreement with Barton Mutual to reflect changes in company names that had occurred.

Company Response: The Company amended the agreement to reflect the name changes.

Current Findings: The Company amended the agreement to make the recommended name changes.

HISTORY

General

The Company was organized in 1880 as Owensville Mutual Benefits Aid Association and was subsequently incorporated on June 30, 1910. In 1980, the Company changed its name to Owensville Mutual Insurance Company. The Company relocated its home office in 1999 from Cuba, Missouri to Liberal, Missouri. In 2001, the Company changed its name to Gateway Mutual Insurance Company.

The Company has a Certificate of Authority dated September 16, 2002, and is covered by Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Insurance Companies). The Company's Certificate of Authority is renewed annually.

Management

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the fourth Thursday in March at the home office of the Company or at such other place and time as may be designated. Special meetings of the members may be called by the Board of Directors at any time, and shall be called upon petition of one-fourth of the members. Eight members constitutes a quorum at any membership meeting. Proxy voting is permitted.

The management of the Company is vested in the Board of Directors, who are elected from the general membership. The Board of Directors consists of seven members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every quarter, and the directors are compensated $150 per each meeting attended.

Members serving on the Board of Directors as of December 31, 2007, were as follows:

Name and Address	Occupation	Term
Sally S. Fast 210 North Denton Liberal, Missouri	Insurance Executive	2006-2009

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company is licensed by the DIFP as an Extended Missouri Mutual Insurance Company operating under Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Insurance Companies). The Company is authorized to write fire, wind and liability insurance in all counties in the State of Missouri. The Company writes fire, wind and liability coverages. The Company's policies are marketed exclusively to retirees by an independent agency force of over one thousand agents. Agents receive a 14% commission and are eligible for bonus commissions if certain loss ratio results are met.

Policy Forms and Underwriting Practices

The Company utilizes AAIS and custom policy forms. The policies are renewed every three years. Property inspections and adjusting functions are performed by employees of Barton Mutual. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	Admitted Assets	Liabilities	Gross Premiums	Gross Losses	Underwriting Income	Net Income
2007	$4,034,408	$1,219,585	$3,135,631	$1,349,594	$ 941,241	$ 927,020
2006	3,055,395	1,167,592	3,292,417	2,038,794	(340,158)	(200,220)
2005	3,353,776	1,265,753	2,977,900	792,439	884,079	636,045
2004	2,462,149	865,147	2,560,003	1,020,804	529,587	628,524
2003	2,334,556	727,324	2,146,312	2,144,062	(335,793)	(243,195)

At year-end 2007, 2,653 policies were in force.

REINSURANCE

General

The Company's reinsurance premium activity on a direct-written, assumed and ceded basis for the period under examination is shown below:

	2003	2004	2005	2006	2007
Direct	$ 1,095,125	$ 1,133,474	$ 1,490,159	$ 1,377,724	$ 1,565,468
Assumed	1,051,187	1,426,529	1,487,741	1,914,693	1,570,163
Ceded	(607,675)	(753,823)	(670,114)	(704,273)	(765,107)
Net	$ 1,638,637	$ 1,806,180	$ 2,307,786	$ 2,588,144	$ 2,370,524

Assumed

Below is a summary of the Company's assumed reinsurance contracts as explained by the Company.

The Company participates in a reinsurance pool with MAMIC Mutual Insurance Company (MMIC). The agreement pertains to errors and omissions policies and director and officer liability policies written by MMIC. MMIC cedes 100% of the first $1,000,000 each claim and in aggregate on all insurance agent and broker errors and omissions policies and 100% of the first $2,000,000 each claim and in aggregate on all officer and director liability policies to the pool. MMIC receives a 35% ceding commission of net written premium ceded to the pool. The Company has a 3% share in the interests and liabilities of the pool.

The Company is a member of the Missouri Mutual Reinsurance Exchange (MMRE), which is a group reinsurance pool consisting of six Missouri mutual insurance companies and managed by Guy Carpenter. Each pool participant is party to a memorandum of agreement, under which risk and premium assumptions are based proportionately on the risks ceded by each company to the pool. Overall pool participation for the Company in 2007 was approximately 10%.

The Company assumes property risks from Barton Mutual under an obligatory pro rata agreement. Under the agreement, the Company assumes premium and losses on a pro rata basis related to the next $30,000 each risk in excess of Barton Mutual's combined retention and underlying reinsurance of $145,000.

The Company has an underlying aggregate excess of loss reinsurance contract placed through Guy Carpenter with Barton Mutual. Under the contract, the Company is liable for 100% of the Barton Mutual's losses in excess of 62.5% the Barton Mutual's earned premium, limited to the lesser of $337,500 or 2.5% of earned premium.

Ceded

Below is a summary of the Company's ceded reinsurance contracts as explained by the Company.

The Company has several layers of reinsurance for its property risks. The Company retains the first $40,000 per risk and cedes the remaining risks to its reinsurers on a pro rata basis.

The Company has a surplus pooling agreement with MMRE. Under the agreement, the Company cedes premium and losses on a pro rata basis related to the next $40,000 per risk in excess of the Company's retention to MMRE. The Company receives a 35% ceding commission on premiums ceded under the agreement.

The Company has obligatory pro rata reinsurance agreements with Barton Mutual. Under the agreement, the Company cedes on a pro rata basis the remaining premium and losses in excess of the Company's retention and underlying reinsurance layer, with a maximum cession of $920,000 per policy. The Company receives a 35% ceding commission under the agreement. The most recent amendment to this agreement states the Company is to retain $20,000 for its own account; however, the Company retained $40,000 for its own account in 2007. The Company should ensure its actual reinsurance retentions comply with the terms of the underlying reinsurance contracts.

The Company has a property aggregate excess of loss reinsurance contract placed through Guy Carpenter with various reinsurers. Under the terms of the agreement, the reinsurers are liable for 97.5% of losses in excess of the greater of 75% of the Company's earned premium or $1,260,000. Reinsurer liability is limited to 97.5% of the lesser of $4,662,000 or 97.5% of 185% of earned premium. Participating reinsurers included Arch Reinsurance Company (37.25%), QBE Reinsurance Corporation (27.00%), Aspen Insurance UK Limited (16.50%), The TOA Reinsurance Company of America (13.00%) and Employers Mutual Casualty Company (6.25%).

The Company has a casualty excess of loss reinsurance agreement placed through Guy Carpenter with various reinsurers that covers the Company's liability coverage exposures. Under the three layers of this contract, the reinsurers provide coverage limited to $1,900,000 per occurrence in excess of the Company retention of $100,000 per occurrence and an annual deductible of $100,000. Participating reinsurers and respective percentages are identical to those outlined in the aggregate excess of loss agreement above.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that any assuming reinsurer should fail to perform its obligations under its reinsurance agreement with the Company.

ACCOUNTS AND RECORDS

The Company maintains its records on an accrual basis. The CPA firm of Van de Ven, LLC compiles the Company's financial statements and prepares the annual statement and tax filings.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2007, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the Annual Statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the Financial Statements. (The failure of any column of numbers to add to its respective total is due to rounding or truncation.)

There may have been differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial, concerning their effect on the financial statements. Therefore, they were communicated to the Company and noted in the workpapers for each individual annual statement item.

ANALYSIS OF ASSETS
December 31, 2007

Bonds	$ 1,273,683
Cash on Deposit	1,603,603
Other Investments (Note 1)	58,082
Premium Uncollected	22,304
Reinsurance Recoverable on Paid Losses	334,324
Interest Due & Accrued	13,290
Accounts Receivable – Barton Mutual	41,746
Total Assets	$ 3,347,032

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2007

Losses Unpaid	$ 86,688
Loss Adjusting Expense Unpaid	746
Ceded Reinsurance Premium Payable	310,605
Unearned Premium	789,620
Federal Income Tax Payable (Note 2)	246,351
Accounts Payable	13,986
Prepaid Policy Deposits	17,940
Total Liabilities	$ 1,465,936
Guaranty Fund	$ 328,187
Other Surplus	1,552,909
Total Surplus	1,881,096
Total Liabilities and Surplus	$ 3,347,032

STATEMENT OF INCOME
For the Year Ending December 31, 2007

Net Premiums Earned	$ 2,477,563
Other Insurance Income	410,447
Net Losses & Loss Adjustment Expenses Incurred	(968,471)
Other Underwriting Expenses Incurred	(978,298)
Net Underwriting Income (Loss)	$ 941,241
Investment Income	110,779
Gross Profit (Loss)	$ 1,050,020
Federal Income Tax	(125,000)
Net Income (Loss)	$ 927,020

CAPITAL AND SURPLUS ACCOUNT
December 31, 2007

Policyholders' Surplus, December 31, 2006	$ 1,887,803
Net Income (Loss)	927,020
Examination Change – Non-Admit Surplus Note (Note 1)	(687,376)
Examination Change – Federal Income Tax Payable Adjustment (Note 2)	(246,351)
Policyholders' Surplus, December 31, 2007	$ 1,881,096

NOTES TO THE FINANCIAL STATEMENTS

Note 1 – Other Investments

The Company improperly reported an asset relating to the principal and interest balance on a surplus note issued by Cape Mutual totaling $687,376. Surplus notes are not admitted assets as the issuer does not report a corresponding liability, and principal and interest payments are not allowed without prior approval of the DIFP. An examination change was made to reduce the other investments balance by $687,376.

Note 2 – Federal Income Tax Payable

The Company failed to report a liability for federal income tax payable of $246,351 relating to the 2007 tax year. An examination change was made to increase the federal income tax payable balance by $246,351.

EXAMINATION CHANGES

	Increase in Surplus	Decrease in Surplus	
Total Policyholder Surplus Per Company, December 31, 2007			$ 2,814,823
Other Investments	$ 0	$ (687,376)	
Federal Income Tax Payable		(246,351)	
	------------	------------	
Total Change	$ 0	$ (933,727)	(933,727)
Total Policyholder Surplus Per Examination, December 31, 2007			$ 1,881,096

GENERAL COMMENTS AND RECOMMENDATIONS

Reinsurance - Ceded (Page 8)

The Company should ensure its actual reinsurance retentions comply with the terms of the underlying reinsurance contracts.

Notes to the Financial Statements (Page 13)

The Company should not report the surplus note principal and interest receivable from Cape Mutual as an admitted asset on future Annual Statement filings.

The Company should ensure that federal income tax liabilities are properly estimated, accrued and reported on future Annual Statement filings.

SUBSEQUENT EVENTS

None.

ACKNOWLEDGMENT

The assistance and cooperation extended by the employees of Gateway Mutual Insurance Company during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
) ss
County of Cole)

I, Shannon W. Schmoeger on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only the facts appearing upon the books, records or other documents of the company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

Shannon W. Schmoeger, CFE
Financial Examiner
Missouri DIFP

Sworn to and subscribed before me this 25th day of February, 2009.

My commission expires:

May 18, 2012

Kimberly Landers
Notary Public

KIMBERLY LANDERS
MY COMMISSION EXPIRES
May 18, 2012
NOTARY SEAL
CALLAWAY COUNTY
NOTARY PUBLIC, STATE OF MISSOURI

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

Tim Tunks
Tim Tunks, CFE, CPA
Examiner In Charge
Missouri DIFP

BARTON
MUTUAL GROUP
Barton • Cape • Gateway
P O Box 99 Liberal, MO 64762
Phone 417-843-6265 Fax 417-843-2245

May 6, 2009

Frederick G. Heese, Chief Financial Examiner
Missouri Department of Insurance
PO Box 690
Jefferson City, MO 65102

RE: Gateway Mutual Financial Exam

Dear Mr. Heese,

I am in receipt of the Examination Report for Gateway Mutual Insurance Company for the period ending December 31, 2007. In regards to the General Comments and Recommendations listed on page 12 of the report, I wish for the following response to be included in the final report.

Note 1 – Other Investments

The reclassification of the Cape Mutual surplus note and accrued interest as a non-admitted asset has been duly noted and corrected on the 2008 Annual Statement and future statement filings with the Department.

Note 2 – Federal Income Tax Payable

The omission of the federal income tax payable amount for the 2007 tax year has been noted and corrected on the 2008 Annual Statement as filed with the Department.

Reinsurance - Ceded (Page 8)

Future contract wording will be amended to eliminate these types of inconsistencies.

As a final note, we would like to extend our gratitude to Shannon Schmoeger for the professionalism demonstrated in conducting the financial exam of our company.

Sincerely,

Joel E. Dermott, President
CAPE MUTUAL INSURANCE COMPANY

JED/me